



AUDITOR - GENERAL
SOUTH AFRICA

The Accounting Officer
Umjindi Local Municipality
P.O. Box 33
Barberton
1300

30 November 2014

Reference: 02054REG13/14

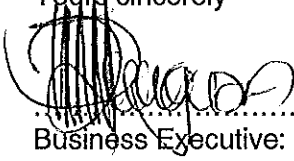
Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Umjindi Local Municipality for the year ended 30 June 2014

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
3. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Vusumuzi Gcaba', written over a dotted line.

Business Executive: Mpumalanga Business Unit

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Auditor's report

Umjindi Local Municipality

30 June 2014

Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Umjindi Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Umjindi Local Municipality set out on pages ... to ..., which comprise the appropriation statement, the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Inventory

6. Paragraph 0.5 of GRAP 1 *Framework for preparation and presentation of financial statements* defines an asset as a resource controlled by the entity as a result of a past event from which future economic benefits or service potential is expected to flow to the entity. Included in inventories was land held for sale, amounting to R188 421 000, which included houses occupied by third parties from which the municipality derived no economic benefits and over which it had no control. I could not obtain sufficient appropriate audit evidence that the municipality would derive any future economic benefits or control over these properties. Consequently, I could not confirm whether the inventory of R190 771 775 (2013: R193 051 348) disclosed in note 11 to the financial statements and accumulated surplus of R1 001 335 507 as presented in statement of changes in net assets were fairly stated.

Qualified opinion

7. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Umjindi Local Municipality as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

9. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during 2014 in the financial statements of the municipality at, and for the year ended, 30 June 2013.

Material impairments

10. As disclosed in note 13 to the financial statements, the receivables balance was significantly impaired. The impairment of consumer debtors amounted to R57 712 114 (2013: R49 848 640), which represented 64% (2013: 66%) of the total consumer debtors. The contribution to the provision for debt impairment was R12 298 483 (2013: R14 907 973).

Material losses

11. As disclosed in note 50 to the financial statements, material losses of R20 114 134 (2013: R15 435 670) were incurred as a result of electricity distribution losses, which represented 32% (2013: 27%) of the total electricity purchased.

Additional matter

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

14. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2014:
 - Development priority 1: infrastructure and basic service delivery on pages ... to ...
16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
17. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priority. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

19. The material findings in respect of the selected development priority are as follows:

Usefulness of reported performance information

Reported targets not consistent with planned targets

20. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 38% of the reported targets were not consistent with those in the approved integrated development plan. This was because management did not fully understand the requirements of the FMPPI.

Measurability of indicators and targets

21. The FMPPI requires the following:

- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.
- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 31% of the targets were not specific.

This was because management did not fully understand the requirements of the FMPPI.

Reliability of reported performance information

22. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements; technical indicator descriptions for the accurate measurement, recording and monitoring of performance; monitoring of the completeness of source documentation in support of actual achievements; and frequent review of the validity of reported achievements against source documentation.

Additional matter

23. I draw attention to the following matter:

Achievement of planned targets

24. Refer to the annual performance report on pages ... to ... for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priority reported in paragraphs 20 to 22 of this report.

Compliance with legislation

25. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Budgets

26. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements, performance report and annual report

27. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Some material misstatements of non-current assets, disclosure and expenditure identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records provided, but the uncorrected material misstatements and the supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

28. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act of South Africa, 2000 (Act No. 38 of 2000) and CIDB regulation 18.
29. The prospective provider list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not invited to apply for such listing at least once a year, as per the requirements of supply chain management (SCM) regulation 14(1)(a)(ii) and 14(2).
30. The municipality did not implement an SCM policy, as required by section 111 of the MFMA.
31. Bid adjudication was not always done by committees composed in accordance with SCM regulation 29(2).

Expenditure management

- 32. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 32(2) of the MFMA.
- 33. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Asset management

- 34. An effective system of internal control for assets was not adequately monitored, as required by section 63(2)(c) of the MFMA.

Consequence management

- 35. Unauthorised and irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Internal control

- 36. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

- 37. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting, compliance and related internal controls.

Financial and performance management

- 38. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.
- 39. Management did not review and monitor compliance with applicable laws and regulations.
- 40. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.

Governance

41. The internal audit unit and audit committee operated effectively during the current period as per their legislated mandate. Recommendations were made to management to improve internal controls and ensure reliable reporting of financial and performance information as well as compliance with legislation. However, this did not result in improved controls due to management not implementing the recommendations, which led to the adverse assessment of the impact of these governance structures.

Auditor-General

Mbombela

30 November 2014



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Auditing to build public confidence